

MEMORANDUM

TO: Board of Trustees, School and Institutional Trust Lands Administration

FROM: Alexa Wilson

RE: **Minor Transaction: Notice of Land Sale
Sale of Coral Canyon Market Lease (DEVL 12) Parcel to the Lessee**

Date: August 8, 2016

Fund: **Miners Hospital**

This transaction has been reviewed for recommendation by the subcommittee

Transaction Summary

The Trust has agreed to sell a 2.522 acre parcel to its current lessee. The price has been established by appraisal at 240,000 per acre¹, \$605,280 (\$5.51 per square foot). The closing is expected to take place in October 2016.

Background

The proposed buyer of the property is the current lessee. The Lease was initiated in December 1996 for the purpose of constructing and operating a gas station that includes a convenience store. The gas station is located approximately 1 mile from the I-15 exit to Highway 9, on the intersection of Highway 9 and Telegraph Street, half a mile past one of the main entrances to the Coral Canyon community.

The initial lease term is about to expire after 20 years. The Lessee has the right to extend the lease under the same terms for two additional 20 year periods. The lease is for 3 acres of property, we are proposing to sell the 2.52 acres that are currently paved and in use for the gas station. The balance of the property will be released to the Trust.

The gas station/ convenience store and its underlying lease have had a bumpy history that includes two bankruptcies. The current lessee bought the gas station out of its second bankruptcy in 2003. In the years since, the business has struggled. While the population of Coral Canyon steadily grew in the intervening years, new competition has emerged, notably a new Shell station half a mile closer to the freeway and a Maverik at the next exit. Nevertheless, after several sizable cash infusions from the lessee, falling behind on the rent several times and most recently an agreement to forgo the scheduled CPI increase of the rent, the parking lots have been repaved, the store has been refurbished and the business is showing a modest positive cash flow. The lessee is now in apposition to purchase the lease parcel, rather than extending the lease and has agreed to pay full appraised value for the land.

¹ Appraised by Garrett Hannig at Morley and McConkie, May 4, 2016

Economic Evaluation

- The current lease calls for the payment of Minimum Rent as well as Percentage Rent (1.5% of non- fuel sale and 0.5% fuel sales). The Percentage Rent received in addition to the Minimum Rent has been negligible over the past 20 years. It is unlikely that Percentage Rent will be payable in the near future. Cap Rate and NPV analysis has been performed based on Minimum Rent (\$32,200 per year).
- NPV of the rent during 40 years remaining on the lease (including extension periods) plus value of the land after 40 years based on current rent according to the lease, CPI increases every five years by 10% and an increase in land value of 2% per year: NPV at 7.5% discount rate = **\$579,000**
- Cap Rate for retail and commercial properties (according to 2016 Q1 snapshot of NAI excel for the St. George region) is between 6 and 8%. Current Rent \$32,200 per year and we have no operational expenses. The Value of the lease contract at 6% Cap Rate = **\$537,000**, value at 8% Cap rate = **\$402,000**.
- Cap Rate of the transaction is **5.32%**
- 3 acres appraised at \$720,000, proposed sale of 2.5 acres (pending survey of portion of lease parcel that is actually used) at **\$600,000**
- The value of the 0.48 acre to be released to the Trust has not been included in the calculations.
- **Conclusion:** Sale of 2.522 acres of the lease premises is in the best interest of the trust beneficiary.

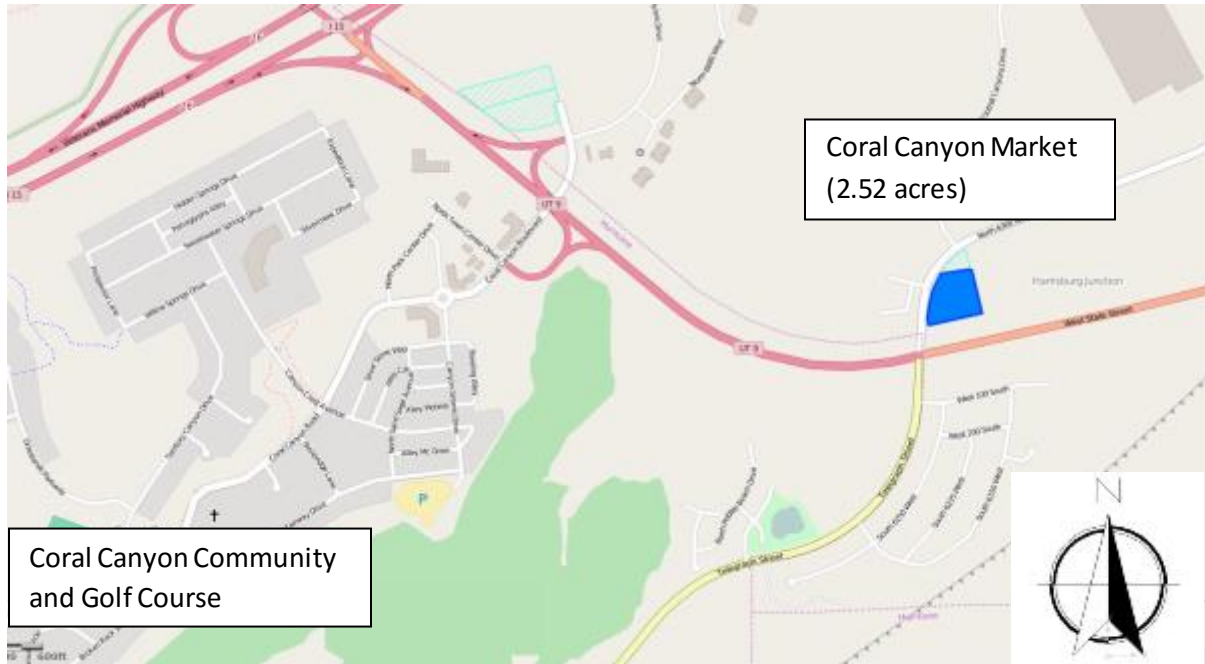
Conflicts of Interest

None known.

Legal Description of the Sale Property

A parcel of land, portions of which are located in the Northwest and Southwest Quarters of **Section 4, Township 42 South, Range 14 West, Salt Lake Base and Meridian**. Said parcel being more particularly described as follows: Commencing at the Center Quarter Corner of said Section 4 and running; thence South 00°23'31" East 207.96 feet along the center section line to a point on the Northerly right of way line of State Route 9; thence South 77°49'20" West 496.08 feet along said Northerly right of way line to the Point of Beginning; Thence continuing along said Northerly right of way line South 77°49'20" West 391.99 feet to the Easterly right of way line of the County road (Old Highway 91); thence North 02°48'22" East 99.30 feet to a point of curvature; thence Northerly 270.96 feet along the arc of a 550.00 foot radius curve to the right through a central angle of 28°13'38"; thence leaving said right of way line and running North 77°53'43" East 235.75 feet; thence South 12°11'57" East 330.00 feet to the Point of Beginning. Containing approximately 109,860 Square Feet or **2.522 Acres**.

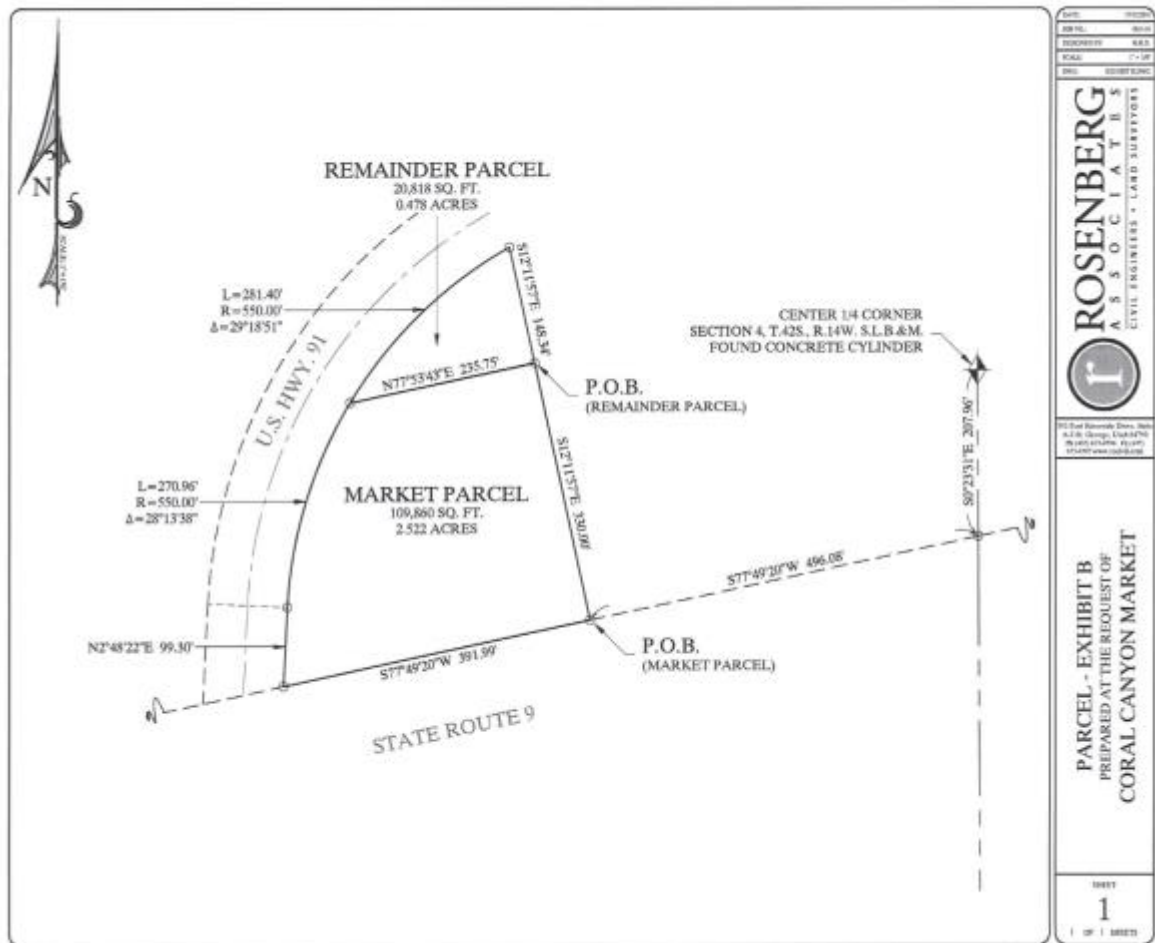
MAPS



1 Property Location



2 Gas Station, Convenience Store and Truck Parking



3 Survey Map